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IN THE

Supreme Court of the United States

October Term, 1968
No. 471

PERFO-LOG, INC.,

Petitioner,

vs.

WELL SURVEYS, INC., now DRESSER SYSTEMS, INC., and DRESSER INDUSTRIES, INC.,

Respondents.

Reply Brief in Support of Petition for Writ of Certiorari.

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I.

Respondents Do Not Attempt to Answer the "Question Presented"—They Beg It.

Respondents' assertion (Resp. Br. p. 2) that Petitioner "does not discuss—or even quote—the royalty provision of the license agreements", overlooks Respondents' license agreements to Cardinal Surveys Company[1] [R. 1690] and Booker Drilling Co., Inc. [R. 1581]. The Cardinal Surveys Co. and Booker Drilling Co. agreements which cover the Swift patent and

[1]For convenience and ready reference, the Cardinal Surveys agreement is appended hereto. Appendix pp. 1-8.

numerous other of Respondents' patents[2] require the payment of an undiminished royalty after the expiration of the important Swift patent, *irrespective of whether one of the other patents is used.* Paragraph 3.01 [R. 1693-4] of the Cardinal Surveys agreement provides:

> "3.01 Company agrees to pay WSI as royalty on each Radioactivity Survey conducted by Company during the term of this Agreement an amount equal to five per cent (5%) of gross charge (exclusive of mileage) made for the survey so conducted or a sum of ten dollars ($10.00), whichever is the greater." (Emphasis added).

Paragraph 3.02 [R. 1584-5] of the Booker Drilling agreement reads as follows:

> "3.02 Company agrees to pay WSI as royalty on each Radioactivity Survey conducted by Company during the term of this agreement an amount equal to six per cent (6%) of gross charge (exclusive of mileage) made for the survey so conducted or a sum of ten dollars ($10.00), whichever is the greater, provided that, until such time as fifty (50%) per cent of the total royalty thus payable shall equal the sum specified in Section

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[2]Paragraph 1.06 [R. 1582, 1691-2] of the Cardinal Surveys Co. and Booker Drilling Co. agreements provides that "The term 'Patent Rights of WSI' as used herein shall mean any and all United States patents owned by WSI to the extent that such patents claim inventions disclosed in applications filed to the United States Patent Office on or prior to January 1, 1961, and to the extent that such patents would be infringed by a method or apparatus in the Field of Radioactivity Well Surveying." The Swift patent and the Peterson patent matured from applications filed in the U.S. Patent Office on March 22, 1946 and March 25, 1957, respectively [R. 1605, 1627].

3.01, Company shall actually pay WSI an amount equal to fifty (50%) per cent of the royalty thus payable."

Cardinal Surveys Co. and Booker Drilling Co. may terminate their agreements on September 1, 1968[3] [R. 1696] and April 1, 1969 [R. 1587], respectively. Those agreements contain no provision for diminution of royalty at the expiration of the important Swift patent. Under *Rocform,*[4] those agreements constitute misuse *per se,* as an effort to continue to collect royalty on the important Swift patent after its expiration. In direct conflict with *Rocform,* the Tenth Circuit has effectively held that those agreements constitute misuse *only if* the element of coercion is present, *i.e., only if* the licensees were not offered a license under any or all patents upon reasonable negotiated terms. Such a conflict should be resolved by this Court.

Respondents' contention (Resp. Br. p. 1) that Petitioner's statement of the Question Presented "attempts to read the controlling point entirely out of the case" is simply an attempt to create a false issue.

As the Tenth Circuit put it (Appendix[5] A p. 17), "The Swift patent covers a system of measuring radiation from the earth formations around a well casing and, at the same time, locating the collars of the casing as a positive indication of the depth at which particular radiation is measured."

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[3]The Swift patent expired May 29, 1968.

[4]*Rocform Corp. v. Acitelli-Standard Concrete Wall, Inc.* (6th Cir. 1966), 367 F. 2d 678.

[5]As used herein "Appendix A" and "Appendix B" refer to the appendices to the Petition.

If a licensee of Respondents, such as Jetco, used an oil well surveying tool to measure radiation from the earth formations around a well casing, and at the same time, used the Peterson form of collar locator to locate the collars of the casing on *May 29, 1968,* the *last* day of the statutory 17-year term of the Swift patent monopoly, it would be required to pay Respondents "an amount equal to five percent (5%) of the gross charge (exclusive of mileage) made for the survey so conducted or a sum of ten dollars ($10.00), whichever is the greater" [806-7]:

Since admittedly[6] the Swift patent is an "important patent" and the Peterson patent is of "lesser importance", it is a necessary conclusion that a *major* portion of the 5% royalty is allocable to the *important* Swift patent and a minor portion only to the Peterson patent of "lesser importance".

If Jetco used the same oil well surveying tool including the Peterson form of collar locator on *May 30, 1968,* the day *after* the Swift patent expired on May 29, 1968, it would be required to *pay precisely the same royalty* as it paid the day before when the Swift patent was still alive.

A fortiori under the eight license agreements[7] the major portion of the 5% royalty allocable to the "im-

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[6]Respondents admitted, "* * * we do, of course, recognize that, compared to Swift, Peterson is of lesser importance. * * *" (Respondents' Opening Brief before the Tenth Circuit pp. 10-11). In their Summaries of Patents, Respondents characterized the Swift patent as "the basic patent covering radioactivity well logging systems" and the Peterson collar locator as "but one of a number of casing collar locators that could be used" with the system of the Swift patent [R. 1592, 1594].

[7]Reference is to the eight license agreements upon which prime reliance was placed. See Items 11, 12, 14, 15, 16, 17, 18 and 21 of Appendix B pp. ii and iii.

portant" Swift patent is payable after Swift expired. Respondents (Resp. Br. p. 3) in their restatement of the Question Presented take no issue with the fact that Swift is "an important patent" and that Peterson is of "lesser importance".

Thus the dispositive fact is that these challenged agreements are "royalty agreements that project beyond the expiration date of a patent" and hence are "unlawful per se" *Brulotte v. Thys Co.* (1964), 379 U.S. 29.

It was on this basis that the District Court concluded:

> "9. The license agreements between plaintiff and Jetco, Star, French, Luling, Maroney, Petroleum, Shelwell and Titan constitute in effect an effort to continue to collect royalties on the Swift Patent after its expiration between (because) said agreements contain no diminution of license fee at the expiration of the important Swift Patent and contain no termination clause at the will of the licensee." (Appendix A p. 42)

This dispositive *fact* is not changed or altered by Respondents' convenient but inaccurate argument (Resp. Br. p. 6) that royalty is payable *only* on operations "which, if unlicensed, would infringe the Patent Rights of WSI during the term of the agreement". The semantic argument that these words in the royalty provision of the offensive license agreements effect a change in the "base" sufficient to save the agreements "although the royalty rate does not change" draws a line where no line exists. A critical reading of paragraph 3.02 of the eight license agreements immediate-

ly reveals that—contrary to Respondents' argument—after the expiration of Swift, there is no change in the royalty base in the sense that the royalty is payable on any different aspect or aspects of the radioactivity well survey conducted.

Paragraph 3.02 reads:

> "3.02 Company agrees to pay WSI as royalty on each Radioactivity Well Surveying operation conducted by Company, which if unlicensed, would infringe the Patent Rights of WSI during term of this agreement an amount equal to five percent (5%) of the gross charge (exclusive of mileage) made for the survey so conducted or a sum of ten dollars ($10.00), whichever is the greater." [R. 806-7].

The royalty base is the operation on which the royalty is payable. Under paragraph 3.02, the royalty is payable on *"each Radioactivity Well Surveying operation conducted* * * * which if unlicensed, would infringe the Patent Rights of WSI * * *" The amount of the royalty is "an amount equal to five percent (5%) of the gross charge (exclusive of mileage) made for the *survey so conducted* or a sum of ten dollars ($10.00), whichever is the greater." The import of paragraph 3.02 is unmistakable. Any use by a licensee, such as Jetco, of the Peterson form of casing collar locator—after the expiration of the Swift patent—in the performance of a radioactivity well logging operation requires the payment of a 5% royalty for the *entire* radioactivity well surveying operation.

The royalty base *does* change in the sense that, after the expiration of Swift, the royalty is payable on Peter-

son rather than on Swift. And this is exactly what the Tenth Circuit said:

> "Although the royalty rate does not change, the base for that rate changes because after the expiration of Swift, no royalty is payable unless the Peterson patent is used *in the logging operations.*" (Appendix A p. 20) (Emphasis added)

The immutable fact remains that the *same* number of dollars is payable as *royalty* for the same use of the same apparatus the day *after* the "important" Swift patent expired on May 29, 1968 as *was* payable the day *before* it expired.

There is thus exposed a further illegal consequence of the "change in the royalty base" upon which Respondents so strongly rely. That consequence is that under the questioned agreements, the "unimportant" Peterson patent does not stand on its own feet. If Jetco, after the expiration of the important Swift patent, uses the Peterson form of casing collar locator in the performance of a radioactivity well surveying operation, it is obligated to pay a royalty which is unrelated to the quality of the Peterson patent. It is obligated to pay a royalty—not on the casing collars located—but on the *entire* radioactivity well surveying operation. Peterson thus "borrows quality" from the "important" Swift monopoly and draws on *that* expired monopoly to extend the royalty payments on Swift illegally into the post expiration period. Such agreements are condemned by *United States v. Loew's, Inc.* (1962), 371 U.S. 38, 46, 47, *United States v. Paramount Pictures, Inc.* (1948), 344 U.S. 131, and *Brulotte v. Thys Co.*

In disregard of these controlling rulings, the Tenth Circuit held that "the relative importance of the patents

has no significance if a licensee is given the choice to take a patent alone or in combination on reasonable terms. Freedom of choice is the controlling question." (Appendix A p. 21).

These same considerations expose the direct conflict with the decision of the Sixth Circuit in *Rocform*. Respondents' attempt (Resp. Br. p. 13) to distinguish *Rocform* is summarized in the inaccurate representation that,

> "* * * In the instant case—unlike *Rocform*—there was a diminution of the royalty base at the expiration of Swift, and no royalty was payable thereafter except on operations in which the licensee freely chose to use one of the licensed patents."

But, as has been seen, this argument is a semantic ruse. The depositive *fact* is that the same royalty was payable on the *same* tool both before and *after* the Swift patent expired. Thus, by Respondents' own admission there is a direct conflict between *Rocform* and the decision below.

II.

The "Question Presented" Goes to the Inherent Conflict Between the Decision of the Sixth Circuit in Rocform and the Decision of the Tenth Circuit on a Matter of Substantial Public Importance and Should Be Answered by This Court.

The conflict between the decision of the Sixth Circuit in *Rocform* and the decision below is an important one in the significant field of package licensing upon which this Court has never spoken. Its resolution is important, not only because of the significance of the subject matter involved to the public generally, but also

because the conflict involves a plurality of decisions of this Court. Indeed, the decision below is in substantial part justified on the authority of *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.* (1950), 339 U.S. 827.

The Appendix hereto (pp. 9-18) contains portions of a treatise by counsel for Respondents, Rufus S. Day, Jr., entitled 'Recent Developments in Patent Misuse and Antitrust". Mr. Day's treatise emphasizes the inconsistency between *Rocform* and *McCullough*,[8] the confusion which exists with respect to the expired patent doctrine, and the need for untangling that confusion by this Court:

> *"If McCullough were the latest case, there would be a clear rule as to the legality of package licenses, in which some of the licensed patents expired during the nonterminable period of the license.* Those entered into voluntarily and without coercion would be legal, while those resulting from coercive practices on the part of the licensor would constitute misuse. (Appendix p. 14.)
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> * * *
>
> In the course of its opinion, the court expressly approved a finding of the district court that Rocform had employed its important patent to 'coerce (or attempt to coerce) this defendant to purchase

[8]Mr. Day's reference to *McCullough* is the first *McCullough* decision, *McCullough Tool Company v. Well Surveys, Inc.*, 343 F. 2d 381. It is to be noted that the Tenth Circuit, (in the instant case) in declaring its disagreement with *Rocform*, expressly adhered to its decision in the first *McCullough* case (Appendix A p. 21).

the Rocform system, and thus to purchase other patents and unpatented materials and services.' *On this assumption, there would seem to be no inconsistency between Rocform and McCullough.*

However, the dissenting judge in Rocform makes the points that there was no basis in the record for any finding of coercion, that all Rocform had done was offer its regular form of contract to Acitelli, that Acitelli had refused it without suggesting any other, and that these facts did not amount to coercion.

These indications that the majority could not have regarded a finding of coercion as necessary to its decision *are reinforced by some of the broad language in the majority opinion. It is certainly arguable that the majority regarded misuse as inherent to any license agreement that does not provide for some diminution in royalty, or for a right in the licensee to terminate, whenever any important licensed patent expires. We are therefore faced with the question—in the light of all the cases, including Rocform—of how we should deal with the expiring patent problem in drafting a license agreement.*

My answer to this question is a conservative one. In some respects, it is different from what I would lay down as the law, if, as a judge, I had the opportunity to do so. *As counselors, not judges, we must remember that the expired patent doctrine is in a very fluid state, and is liable to further judicial extension. * * *"* (Emphasis added). (Appendix pp. 15-16.)

For the foregoing reasons, the Petition for Writ of Certiorari should be granted.

Respectfully submitted,

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Dated October 4, 1968.